# Iran: The Impact of Economic Sanctions

Economic sanctions against Iran can be implemented through the enactment of Articles 39 and 41 of Chapter VII of the Charter of the United Nations or by persuading our allies to join the US blockage of Iranian assets and/or the de facto US embargo against Iran that has resulted from the refusal of the International Longshoremen's Association to load cargoes bound for Iran. Trade sanctions could be selective (for example, applying only to military parts and equipment or perhaps to all goods except food) or could take the form of a total prohibition on all commercial dealings with Iran. While US allies are likely to be more receptive to the invocation of sanctions under UN auspices than to other alternatives, a call for sanctions would likely be a drawn out affair; we could expect Soviet opposition and a possible veto. 25X1

## Trade Sanctions

In the aggregate, the direct impact of a trade embargo on exports to Iran would appear to be minimal for most suppliers. In no case -- whether we look at developed or less developed countries -- is the share of the Iranian market larger than 10 percent of total exports. For most developed countries, the portion is sharply less, with the EC countries typically sending less than one percent of their exports to Iran. Japan presently sends less than one percent of its total exports to Iran. 25X1

The indirect effects -- through Iranian retaliation in the form of an oil export cutback -- are, of course, greater. The Japanese are the most vulnerable, with a significant share of their oil imports coming from Iran. In the EC, West Germany stands to lose a good deal from the oil cutback, although the impact might be padded by the triggering of the IEA's emergency-sharing system. Given historic consumption patterns, members of the Organization for Economic Cooperation and Development (OECD) would move into a full-fledged recession with inflation returning to peak 1974 levels if Iranian oil production is shut down for a lengthy period. All chances of significant positive real economic growth in the world economy next year would be eliminated. Moreover, fears of possible output losses elsewhere could spark a strong psychological reaction that could intensify the economic slowdown. 25X1

25X1

In response to an Iranian oil shutdown, OECD members will intensify conservation campaigns, possibly including rationing, and will probably allow stocks to be drawn down. Such measures could, under optimistic assumptions, make up perhaps as much as one million b/d. This would reduce considerably the direct economic effects of the oil shortfall. Even under this best-case scenario, however, positive growth in the developed countries would be extremely unlikely, and GNP declines in several countries would still be in prospect.

25X1

## Cross Defaults and Asset Freezes

Iran has borrowed nearly $6 billion in the Eurocurrency market since 1975, and most syndicated Eurocredits and Eurobonds include standard cross default clauses that provide for repayment of all loans if any one loan is declared in default. Hence, the default on US-backed loans could be used to trigger other defaults. Commercial bank default declarations on Iranian loans probably would lead to a freeze on Iranian assets as the banks undertake court procedures to cover their exposures. While this would be more palatable politically to US allies than a direct government imposed asset freeze, the degree of central bank influence over domestic banks, which have been reluctant to take such actions, varies. French President Giscard appears to be the only leader of the major allies able to move quickly and with relatively few constraints.

Iran's official foreign assets total about $18.6 billion compared with a foreign debt of $10.3 billion. While the $9 billion in assets blocked by the United States is considerably more than the amount owed US lenders, other countries would not be in such a favorable position if they blocked Iranian assets. Iran's debts to Canada and West Germany far outweigh official Iranian assets in these countries.

25X1

## Impact on Iran

Further sanctions would intensify the economic problems Iran is already experiencing because of the *de facto* US trade embargo, the confusion caused by the US blocking of Iranian assets and the inept responses of the Iranian banks, and a *de facto* partial shipping blockade that has developed as the risk premium on shipping to Iran has risen. These developments are limiting Iran's ability to supply itself while reducing its ability to import essential requirements. Hence, commodity shortages would be increased, inflation accelerated, and unemployment intensified by trade sanctions. Even if our allies only blocked Iranian assets, it would virtually create an embargo against exports to Iran while Iran sorts out its financial dealings.

25X1

[redacted] 25X1



If Iran retaliated by shutting down oil exports, it would of course lose its $80 million a day in oil revenues. This would impose little additional hardship, however, since imports would be at such low levels that Tehran would not need these funds. Local expenditutes could be covered with domestic currency. [redacted] 25X1

While economic hardships created by additional sanctions are not apt to change Khomeini's mind set directly, their political impact would be felt in several ways. Some members of Khomeini's entourage would increasingly feel that the goals of their Islamic Republic were being imperiled by the protracted hostilities, and a few might attempt to influence Khomeini to negotiate a settlement. In addition, even before the current flareup in US-Iranian relations, signs of discontent with economic conditions were apparent, especially among some of the staunchest backers of the revolution such as the Bazaaris and urban workers. While Iranians are willing to pay some price to ensure the success of the revolution, their use of the United States as a scapegoat for most of Iran's problems is likely to wane. [redacted]

25X1